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Economics Group

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Another Debt Ceiling Deadline

The clock is again ticking toward another debt ceiling deadline. Congress faces a number of issues to start the year, including the need to lift the nation's borrowing limit sometime in March to avoid default.

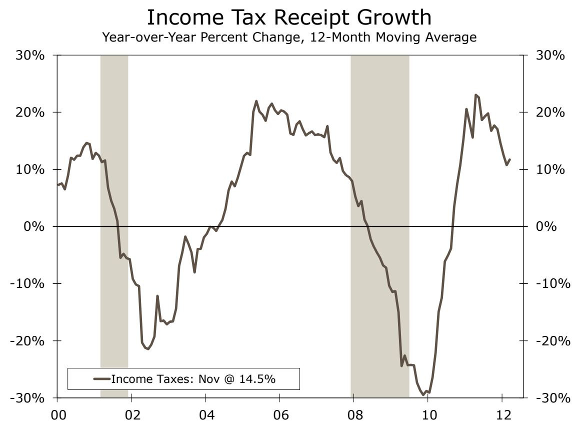
Election Year May Change the Dynamics

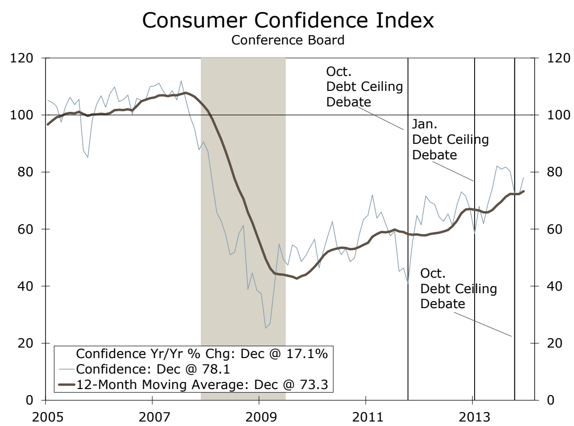
As the 113th Congress returns for its second session this week there is a laundry list of items on the agenda. First, Congress needs to complete and pass an omnibus appropriations bill before January 15th when the current continuing resolution expires. Over the holiday break, the congressional staff has been working to finalize the details. Given the bipartisan nature of the spending bill passed in December, we expect the omnibus appropriations bill to also clear both chambers before the deadline without much incident. The second major item on the docket is the proposed extension of unemployment insurance benefits which expired on December 28th. While some form of unemployment benefits likely will be extended, the debate will likely be contentious and may result in some offsetting budget cuts to reduce the budgetary impact. However, the next key policy deadline is the rapidly approaching need to raise the debt ceiling.

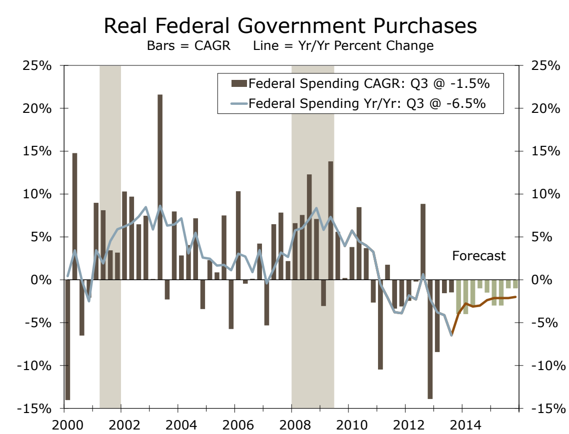
The nation's borrowing limit is currently suspended through February 7th, after which the Department of the Treasury will begin to employ extraordinary measures to stay under the debt limit. Last month Treasury Secretary Jack Lew sent congressional leaders a letter signaling the need to raise the borrowing limit by late February or early March. However, the CBO estimates that through the use of extraordinary measures, the nation can stay under the debt ceiling until March or as late as June. The primary reason for the much shorter duration of the Treasury's flexibility is related to the timing of tax refunds. In the wake of the partial federal government shutdown, the IRS has delayed filings until at least after January 8th. Those individuals expecting a tax refund typically file earlier, resulting in larger federal outlays in February and March before tax collections begin to boost revenue collections (top graph). This dynamically shortens the time period for the Treasury to remain under the borrowing limit. That said, we expect the debt ceiling to be resolved in a timely manner before the deadline; however, the political rhetoric may become heated, especially in light of the debate over extended unemployment insurance benefits.

What Does It Mean for GDP Growth?

Given that we expect timely resolutions to both the omnibus appropriation bill and the debt ceiling increase, we do not expect either of these events to affect our baseline GDP forecast. However, should the political rhetoric become heated, there is some downside risk to consumer confidence (middle graph). Given the likely passage of extended unemployment insurance benefits, there is some upside risk to consumer spending but downside risk to job growth as individuals defer employment. In light of the federal budget deal we still expect a modest drag on GDP growth from federal government spending in the year ahead (bottom graph).







Source: U.S. Department of the Treasury, The Conference Board and Wells Fargo Securities, LLC

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